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C O N F I D E N T I A L SECTION 01 OF 03 TUNIS 000522

SIPDIS

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E.O. 12958: DECL: 05/12/2018

TAGS: [EAGR](#) [ETRD](#) [ECON](#) [KCOR](#) [TS](#)

SUBJECT: RESPONSE: IMPACT OF RISING FOOD/COMMODITY PRICES -
TUNISIA

REF: A. TUNIS 394

- [1](#)B. TUNIS 387
- [1](#)C. STATE 39410
- [1](#)D. 07 TUNIS 1528

Classified By: CDA Marc Desjardins for Reasons 1.4 (b) and (d).

Summary

[1](#)1. (SBU) Rising world food prices continue to negatively impact Tunisian households, with food inflation hitting 8.7 percent for the first four months of 2008 over the same period in 2007. Overall inflation is up 5.8 percent over the same period in 2007, based on the combination of high food and transportation costs. Even as food inflation is up, the GOT has blunted the full impact of rising prices through subsidies and fixed prices for staple goods such as wheat, sugar, edible oils, and milk. Rising inflation has exacerbated tensions created by high unemployment and rumors of corruption -- even leading to protests in the mining region of Gafsa (Ref A). Despite growing inflation and a burgeoning subsidy bill, Tunisia's economy is expected to perform solidly in 2008. Even so, most Tunisians doubt they will feel the benefits of this growth. End Summary.

Economic Impact

[1](#)2. (U) Rising world food prices have pushed food inflation up sharply, with food prices up 8.7 percent for the first four months of 2008 over the same period in 2007. Food costs represent the greatest share of household budgets, 35 percent of the CPI basket. The GOT maintains fixed prices and subsidies for wheat and wheat products, milk, sugar, and edible oils and has largely cushioned Tunisian consumers from the full brunt of rising prices for these products. Prices for meat and poultry, eggs, fruits and vegetables, and dairy products such as cheese and yogurt are set by the market. Even as food inflation has hit a new high, many economists speculate real inflation is above the official rate due to an outdated CPI basket and efforts to keep the rate lower, by keeping the official price of a loaf of bread the same but reducing its size (Ref D).

[1](#)3. (U) Although rising food and fuel costs have pushed inflation upwards, Tunisia's economy appears on track to continue solid GDP growth in 2008. The GOT forecasts 6.1 percent GDP growth for 2008, with the IMF anticipating 5.7

percent growth. Statistics for the first four months of 2008 compared to the same period in 2007 reveal a growing trade deficit driven largely by high oil prices. The trade gap for January - April 2008 widened 18 percent over the same period of 2007. Agriculture represents about 12 percent of GDP and is a major export sector. Despite 20.1 percent growth in agricultural imports, the deficit was limited by a 16.6 percent rise in corresponding exports (mainly olive oil). The trade deficit for January - April 2008 for agricultural products was 48 million dinars (US \$40.8 million).

¶4. (U) High food prices may have had a limited impact on the trade balance, but have a significant budgetary impact. Tunisia maintains fixed prices based on subsidies for grain, sugar, and edible oils in an effort to limit the impact on consumers. The GOT estimated that food subsidies reached 600 million dinars (US \$510 million) for 2007, up from 240 million dinars (US \$204 million) in 2006. For 2008, the subsidy budget is forecast to top one billion dinars (US \$850 million).

Demand

¶5. (U) Rising world food prices have significantly impacted Tunisian households. Wheat (durum and milling wheat), edible oils and dairy products are the most important agricultural products consumed in Tunisia. Thus far, there has been no noticeable demand rationing for these staples. Tunisia imports up to 15 percent of its needs in soft wheat (bread wheat) and up to 85 percent of its needs in durum. Tunisia is nearly self-sufficient in milk, importing less than 5

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percent of its consumption. Olive oil is the only edible oil produced locally, but nearly 80 percent of production is exported. Olive oil is considered a premium oil and many Tunisian consumers rely on cheaper, imported edible oils. Tunisia imports roughly 300 thousand metric tons of edible oils such as soybean, palm, corn, and sunflower seed annually, representing roughly 90 percent of edible oil consumption.

Supply

¶6. (U) The domestic supply for staple food commodities tends to be erratic given the predominance of rain-fed farming in Tunisia. Wheat production has been in the range of 1.2 to 1.5 million metric tons over the last five years, with limited possibility for expansion given the scarcity of farmland. Despite recent GOT initiatives to encourage domestic wheat production, the seeded area and yields are expected to be slightly below average. Lack of rainfall in parts of the country as well as the high-level of indebtedness among farmers limit growth. The supply of locally-produced milk is under pressure due to the high prices for feed commodities, such as corn and barley. Although the GOT imports less than 5 percent of its needs in milk, the country experienced an unexpected shortage in November 2007 (Ref D). Milk producers complained that the fixed producer-level price was too low, given high and rising feed costs, and production is believed to have dropped due to dairy farmers reducing the amount of feed to their cattle.

GOT Policies

¶7. (U) The Tunisian agricultural sector has yet to be liberalized and the GOT maintains control over farm gate prices, imports, exports, and commercial prices for many products. The GOT also subsidizes certain products at the retail level and at the producer-level. Farm gate prices for

cereals and milk are fixed. Although Tunisian farmers may not receive world market prices for certain products, they do benefit from subsidies for many inputs. Prices for feed and fertilizer are subsidized and have remained stable, but chemical pesticides and feed products are not subsidized and are rising. The GOT has also taken steps to reduce the price of inputs such as feed. The GOT temporarily waived the value-added tax (VAT) on corn and recently eliminated customs duties on soybean meal. The GOT has also lowered the VAT and customs on edible oils, such as soybean oil.

18. (U) In addition to providing subsidies to farmers and consumers, the GOT has taken steps to boost domestic cereal production. In October 2007, the GOT increased the farm gate prices of wheat and barley. The GOT also implemented a series of financial incentives intended to encourage farmers to increase yields, including: raising caps on seasonal credits, preferential interest rates, and an increase in investment bonuses from 15 to 25 percent for the purchase of farm equipment. In November 2007, the GOT announced further measures to support cereal farmers, such as debt rescheduling and reduced insurance premiums. This March the GOT announced a special premium of 15 dinars (US \$12.7) per quintal (one quintal equals 100 kilos) for durum wheat and 10 dinars (US \$8.5) per quintal for soft wheat and barley. To address the previous milk shortage and encourage increased milk production (Ref D), the GOT raised farm gate prices by 50 millimes (43 cents) to 480 millimes (US \$4.08)-- the third price adjustment in less than six months.

Political Impact

19. (C) Rising inflation, driven by high world food and fuel prices, has exacerbated tensions created by high unemployment and rumors of corruption (Ref B). In the mining region of Gafsa, frustration with the economic situation even led to protests -- quite rare in this tightly controlled society (Ref A). While we do not believe that the current economic situation will spell the end to this regime, there is continued and growing potential for unrest. In addition to high inflation, Tunisia's official unemployment rate hovers

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around 14 percent, with a recent World Bank estimating that unemployment among university graduates is over 46 percent.

110. (C) High food costs have disproportionately impacted lower class Tunisians. Despite hitting nearly 6.3 percent growth for 2007, many economists believe current growth is redistributive in nature and may erode Tunisia's traditionally solid middle class estimated at 80 percent). Rumors of high-level corruption and conspicuous consumption by the elite have fueled discontent. Currently, the GOT has implemented only limited increases in prices for staple food products in an effort to avoid the type of widespread protest that occurred in 1984 following a price hike for bread. Some Tunisians speculate that such a price increase would have the potential to set off a similar wave of protests given the current climate.

Post Programs/Environmental Impact

111. (U) Tunisia is not a recipient of USG food aid and has no USAID presence. Tunisia purchases all food commercially on the international market. Post has been active in supporting adoption of modern biotechnology in Tunisia. There has been no significant environmental impact as a result of rising food and commodity prices.

Comment: No Quick Fix

¶12. (C) Although rising world food prices have not derailed the Tunisian economy as a whole, Tunisia's lower and middle classes have been disproportionately impacted. Even so, there is no easy solution to the problem. The GOT has taken steps to limit the impact of high prices on consumers -- through subsidies and reduced customs and taxes -- and to encourage domestic agricultural production -- through financial incentives. Although in the long run Tunisia must liberalize its agricultural sector, in the current climate rapid liberalization would not provide short-term relief and instead would spur even greater inflation. Thus far, Tunisia has weathered the global price hikes relatively well. However, inflation is only one of the problems that has contributed to discontent among Tunisians. The GOT must address its persistently high unemployment rate and make greater political progress to eliminate the potential for unrest. End Comment.

¶13. (U) This message has been cleared by FAS Rabat.

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<http://www.state.sgov.gov/p/nea/tunis/index.cfm> fm
DESJARDINS